



SOVLINK

YOUR FIRST CALL – FOR THE SECOND TIER

June 4, 2008

Vozrozhdenie

FLASH
NOTE

BUY

Upside: 27%
Target Price: \$74.9*

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Stock data

Ticker	VZRZ, VZRZP	M.Cap, \$ mn	1,410
Shares Ords	23,748,694	Free Float, %	40%
Shares Prefs	1,294,505	Free Float, \$ mn	564
Bid Ords, \$	59.37	Offer Ords, \$	60.36
Bid Prefs, \$	24.46	Offer Prefs, \$	24.85

Market performance

		1 month	6 months
Absolute	Ords	3.9%	-11.8%
Relative to RTSI	Ords	-9.6%	-17.9%
Price range, \$			
High	Ords	59.9	71.8
Low	Ords	56.6	55.2

Financials, 2008E

Assets, \$ mn	6,352	ROE	21
Book Value, \$ mn	620	P/E	12.4
Net income, \$ mn	117	P/BV	2.3

1Q08 – Net income exceeds forecast, growth slows down

- On June 3, Vozrozhdenie bank released its IFRS results for 1Q08. Net profit amounted to RR681 mn (a 148% increase on a y-o-y basis) and was 10% higher than our estimates. ROE amounted to 22.3% which is slightly lower than in 4Q07 (23.8%) but exceeds the average 2007 level (21%).

- The company's strong growth in net interest income (+49%) was the key driver of the net income growth. Despite the strained financial market conditions, the bank has succeeded in maintaining its high net interest margin (7.0% vs 6.7% in 1Q07 and 7.4% in 4Q07).

- The bank has improved its efficiency ratio – its Cost/Income ratio declined to 61% from 62.5% in 4Q07 and 66.2% - in 1Q07.

- At the same time, the growth of its assets, loan portfolio and individuals' deposits have lagged the aggregate market growth rates. The slowdown has continued for a second quarter due to the limitations on funding sources. Small private Russian banks had poor access to financial markets in 1Q08, and the growth in individuals' accounts has been weak (although the bank managed to increase term deposits by 6.1%, while funds on debit cards declined by 15%). In these conditions, the bank decided to concentrate on building a liquidity cushion against the deteriorating market conditions. However, as management mentioned in a conference call, in May the growth rate of the bank's loan book accelerated rapidly. Besides, market conditions allowed the bank to earn a good yield in high-liquid assets.

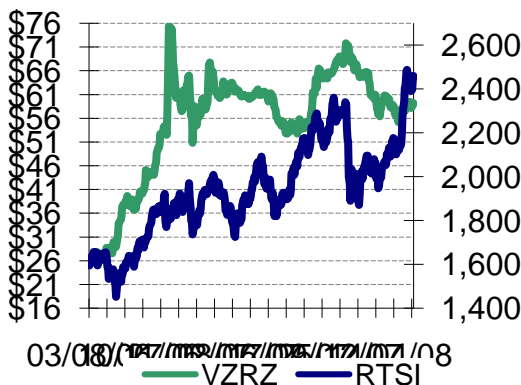
- The structure of the bank's loan portfolio changed slightly – retail loan growth was almost flat but loans to large corporate borrowers increased sharply. Management considers this shift to be temporary, and considers SME loans as a traditional priority in its credit policy.

- Fees & commission income slowed down moderately (34% 1Q08/1Q07 vs 40% 1Q07/1Q06 and -11% 1Q08/4Q07). Management explains this to be due to temporary factors, such as seasonal factors (more holidays in 1Q compared to 4Q), a more competitive market compared to 1Q07 and the impact of accounting policy changes (accrual accounting). Nevertheless, in 2008, the bank expects to exceed last year's annual rate of fee & commission growth due to improvement in its marketing policy.

- We consider the recently declared candidates for the Board of Directors as a sign of the bank's further improvement in corporate governance and in the professional competence of the Board.

- Generally, the bank considers current market conditions to be more positive compared to the previous quarter, which leads us to expect that our previous forecasts (35% growth of the bank's asset base) may be surpassed. Therefore, in spite of the difficult financial markets conditions, the bank has performed well. Consequently, we **reiterate** our **BUY** recommendation on the bank's ordinary shares, with a year-end target value of **\$74.9**.

Vozrozhdenie – Relative performance



Source: RTS, MICEX

* Year-end target price

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Table 1. Income statement, RUR mn

	1Q08(actual)	1Q08(our forecast)	1Q08 (consensus forecast)	1Q07	1Q08 / 1Q07	Difference from our forecast
Interest income	2,860	2,996		1,994	43%	-4.6%
Interest expenses	-1,205	-1,263		-882	37%	-4.6%
Net interest income	1,655	1,733	1,766	1,112	49%	-4.5%
Net fee and commission income	803			601	34%	
Operating income	2,480	2,644		1,569	58%	-6.2%
Operating expenses	-1,589	-1,831		-1,194	33%	-13.2%
PBT	891	813	820	375	138%	9.6%
Net profit	681	618	616	275	148%	10.0%

Source: Company data, SOVLINK estimates

Table 2. Balance sheet summary, RUR mn

	As of 31.03.2008 (actual)	As of 31.03.2008 (our forecast)	As of 31.03.2008 (consensus forecast)	Difference from our forecast	As of 31.12.2007	Changes 1Q08 YTD, %	Changes 1Q08 YTD) for Russian banking sector, %
Assets	116,925	116,848	119,475	0.1%	111,404	5.0%	5.3%
Loan portfolio (net)	81,317	83,662	85,524	-2.8%	78,149	4.1%	10.2%
Loans as % of assets	70%	72%	72%		73%		
Retail loans	17,078				16,765	1.9%	7.7%
Share in loan portfolio	20%				21%		
SME loans	48,017				48,491	-1.0%	
Share in loan portfolio	57.0%				59.9%		
Retail deposits	50,312				49,696	1.2%	3.0%
As a share in customer accounts	57%				61%		
Equity	12,571				11,890	5.7%	7.0%

Source: Company data, SOVLINK estimates



Table 3. Performance indicators

	1Q08	1Q07	4Q07
Asset yield	12.1%	12.0%	12.6%
Funding costs	-4.8%	-4.9%	-5.1%
Net interest spread	7.3%	7.1%	7.5%
Net interest margin	7.0%	6.7%	7.4%
ROE	22.3%	19.5%	23.8%
ROA	2.4%	1.4%	2.6%
Cost / Income	61.0%	66.2%	62.5%

Source: Company data, SOVLINK estimates



STOCK RATING POLICY

STRONG BUY:	Upside over 25%; confidence level – high / upside over 100%; confidence level - low
BUY:	Upside between 15 and 25%; confidence level – high / upside between 25% and 100%; confidence level – low
HOLD:	Upside of less than 15%; confidence level – high / upside of less than 25%; confidence level – low
SELL:	Target price at or below current price levels

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